

POSTED

Loveridge Hunt & Co., PLLC
Certified Public Accountants
14725 SE 36th Street, Suite 401
Bellevue, WA 98006

This representation letter is provided in connection with your audit of the financial statements of Vashon Youth and Family Services (the Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 15, 2014, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in, the aforementioned financial statements or supplementary information.
8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
9. Material concentrations, have been properly disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. As part of your audit, you prepared the financial statements, related notes, and supplementary information (if any). We acknowledge our responsibility as it relates to those nonattest/nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements, related notes, and supplementary information (if any).

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
 - a. Management
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, analysts, regulators, or others.
17. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
18. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.
19. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the notes to the financial statements.

20. We are responsible for compliance with the provisions of laws, regulations, contracts, and grant agreements applicable to us.
21. We have identified and disclosed to you all instances that have occurred or are likely to have occurred of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements of other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
22. We have identified and disclosed to you all instances that have occurred or are likely to have occurred of noncompliance with provisions of contracts and grant agreements (if any) that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
23. We have identified and disclosed to you all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
24. Vashon Youth and Family Services is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
25. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
26. Non-attest services performed included the following:
 - ◆ Routine consultation regarding GAAPRegarding the non-attest services performed by you, we have:
 - a. Assumed all management responsibilities.
 - b. Designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.

Very truly yours,

Vashon Youth and Family Services

By: Jay A. Williamson
Board of Directors

By: [Signature]
Executive Director

Date: 6/9/2015

Date: 6-8-15



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

June 10, 2015

To the Board of Directors
Vashon Youth and Family Services

We have audited the financial statements of Vashon Youth and Family Services (the "Organization") for the year ended December 31, 2014, and have issued our report thereon dated June 9, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

June 10, 2015

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Significant Audit Findings - Continued

The most sensitive estimates affecting the financial statements were:

Management's estimates of depreciation, which are based on the useful life of fixed assets and financing costs and their recoverability in the normal course of business. We evaluated the key factors and assumptions used to develop the estimates for depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accounts receivable is based on the estimated collectibility of outstanding receivables. We evaluated the key factors and assumptions used to develop the accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The attached schedule of adjusting journal entries includes the material misstatements detected as a result of audit procedures and other corrected immaterial misstatements, which were corrected by management (included in the final distribution documents).

The attached schedule of proposed (unrecorded) journal entries summarizes uncorrected misstatements of the financial statements. Management has determined that the effect of these misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. These entries are not recorded by management (included in the final distribution documents).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from the Board of Directors and management that are included in the representation letter dated June 9, 2015 and June 8, 2015, respectively.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information compliance with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

June 10, 2015

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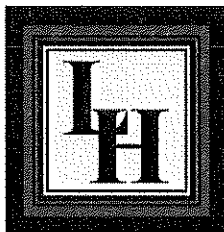
This information is intended solely for the use of the Board of Directors of Vashon Youth and Family Services and is not intended to be and should not be used by anyone other than this specified party.

Very truly yours,

Loveridge Hunt & Co., PLLC

Loveridge Hunt & Co., PLLC

VASHON YOUTH AND FAMILY SERVICES
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Directors
Vashon Youth and Family Services
Vashon, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Vashon Youth and Family Services (the Organization), which comprise the statement of financial position of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vashon Youth and Family Services as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Organization as of and for the year ended December 31, 2013 were audited by another auditor whose report dated July 21, 2014, expressed an unmodified opinion on those statements.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information shown on page 20 is presented for the purpose of additional analysis and is not a required part of the financial statements for the year ended December 31, 2014. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Loveridge Hunt & Co., PLLC

Bellevue, Washington
June 9, 2015

VASHON YOUTH AND FAMILY SERVICES
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 74,541	\$ 45,319
Cash - payroll	58,084	71,357
Grants and contracts receivable	77,459	67,660
Client fees receivable	-	9,167
Prepaid Expenses	5,609	3,715
Total current assets	215,693	197,218
Other assets:		
Unconditional promises to give (See Note 3)	34,950	38,950
Cash restricted	18,446	24,514
Property and equipment, net	635,737	653,848
	689,133	717,312
Total Assets	\$ 904,826	\$ 914,530

Continued on Page 5.

VASHON YOUTH AND FAMILY SERVICES
STATEMENTS OF FINANCIAL POSITION - (CONTINUED)

	December 31,	
	2014	2013
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 30,210	\$ 29,512
Accrued payroll	59,676	71,357
Accrued vacation	24,717	34,100
Due to other organizations	2,377	6,102
Refundable tuition	-	1,150
Rental deposit	1,000	-
Current portion - repayment obligation (See Note 6)	17,419	19,606
Total current liabilities	135,399	161,827
Other liabilities:		
Long Term - Repayment obligation (See Note 6)	-	9,386
Note payable - PlaySpace (See Note 7)	210,000	210,000
	210,000	219,386
Total liabilities	345,399	381,213
Net assets:		
Unrestricted net assets	501,413	467,383
Temporarily restricted net assets (See Note 2)	58,014	65,934
Total Net assets	559,427	533,317
Total Liabilities and Net Assets	\$ 904,826	\$ 914,530

VASHON YOUTH AND FAMILY SERVICES

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2014 and 2013

	Unrestricted	Temporarily Restricted	2014 Total	Unrestricted	Temporarily Restricted	2013 Total
REVENUES, GAINS AND OTHER SUPPORT						
Contributions	\$ 130,856	\$ 14,500	\$ 145,356	\$ 146,675	\$ 39,234	\$ 185,909
Donation goods & services	112,615	-	112,615	130,555	-	130,555
Grants & fees	691,173	-	691,173	726,882	-	726,882
Contract services	30,408	-	30,408	-	-	-
Interest income	32	-	32	187	-	187
Program services fees	236,558	-	236,558	241,535	-	241,535
Special events, net	7,934	-	7,934	21,023	-	21,023
Rent	8,100	-	8,100	13,710	-	13,710
Other income	176	-	176	331	-	331
Net assets released from restrictions	22,420	(22,420)	-	85,614	(85,614)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>1,240,272</u>	<u>(7,920)</u>	<u>1,232,352</u>	<u>1,366,512</u>	<u>(46,380)</u>	<u>1,320,132</u>
EXPENSES						
Program Services	986,474	-	986,474	1,251,830	-	1,251,830
Management & general	159,317	-	159,317	170,882	-	170,882
Fundraising	60,451	-	60,451	50,432	-	50,432
TOTAL EXPENSES	<u>1,206,242</u>	<u>-</u>	<u>1,206,242</u>	<u>1,473,144</u>	<u>-</u>	<u>1,473,144</u>
Change in net assets from operations	34,030	(7,920)	26,110	(106,632)	(46,380)	(153,012)
Other Changes:						
CD Program repayment	-	-	-	(17,955)	-	(17,955)
Total change in net assets	<u>\$ 34,030</u>	<u>\$ (7,920)</u>	<u>\$ 26,110</u>	<u>\$ (124,587)</u>	<u>\$ (46,380)</u>	<u>\$ (170,967)</u>

Continued on Page 7.

VASHON YOUTH AND FAMILY SERVICES

STATEMENTS OF ACTIVITIES - (CONTINUED)

Years Ended December 31, 2014 and 2013

	Unrestricted	Temporarily Restricted	2014 Total	Unrestricted	Temporarily Restricted	2013 Total
NET ASSETS, Beginning	467,383	65,934	533,317	591,970	112,314	704,284
NET ASSETS, Ending	\$ 501,413	\$ 58,014	\$ 559,427	\$ 467,383	\$ 65,934	\$ 533,317

The accompanying notes are an integral part of these financial statements.

VASHON YOUTH AND FAMILY SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014
(With Comparative Totals for 2013)

	Program Services	Management & General	Fundraising	Total 2014	Total 2013
Salaries	\$ 563,946	\$ 106,854	\$ 39,765	\$ 710,565	\$ 893,244
Salaries in-kind	112,421	-	-	112,421	127,455
Payroll taxes/benefits	57,860	11,334	3,946	73,140	88,153
	<u>734,227</u>	<u>118,188</u>	<u>43,711</u>	<u>896,126</u>	<u>1,108,852</u>
Communications	14,932	1,879	3,220	20,031	21,818
Travel & training	16,877	205	27	17,109	29,771
Direct support - clients	84,868	-	-	84,868	69,309
Physical plant & equipment	37,567	6,400	3,432	47,399	44,441
Insurance	7,093	4,277	69	11,439	11,167
Licenses & fees	3,881	3,576	1,454	8,911	12,768
Office supplies & printing	7,439	1,817	2,582	11,838	16,557
Professional services	31,622	18,464	5,613	55,699	71,331
Program support	22,383	1,083	27	23,493	52,984
Taxes	1,718	-	-	1,718	5,165
Interest	8,400	-	-	8,400	8,400
Miscellaneous expense	1,099	-	-	1,099	1,768
	<u>972,106</u>	<u>155,889</u>	<u>60,135</u>	<u>1,188,130</u>	<u>1,454,331</u>
Depreciation	14,368	3,428	316	18,112	18,813
Total Expenses	<u>\$ 986,474</u>	<u>\$ 159,317</u>	<u>\$ 60,451</u>	<u>\$ 1,206,242</u>	<u>\$ 1,473,144</u>

Continued on Page 9.

VASHON YOUTH AND FAMILY SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES - (CONTINUED)

Year Ended December 31, 2013

	Program Services	Management & General	Fundraising	Total 2013
Salaries	\$ 759,411	\$ 105,810	\$ 28,023	\$ 893,244
Salaries in-kind	127,455	-	-	127,455
Payroll taxes/benefits	<u>73,132</u>	<u>12,311</u>	<u>2,710</u>	<u>88,153</u>
	959,998	118,121	30,733	1,108,852
Communications	17,575	1,744	2,499	21,818
Travel & training	28,848	871	52	29,771
Direct support - clients	69,309	-	-	69,309
Physical plant & equipment	27,788	15,954	699	44,441
Insurance	7,181	3,936	50	11,167
Licenses & fees	5,839	5,576	1,353	12,768
Office supplies & printing	9,700	6,130	727	16,557
Professional services	48,966	11,730	10,635	71,331
Program support	49,043	601	3,340	52,984
Taxes	2,062	3,103	-	5,165
Interest	8,400	-	-	8,400
Miscellaneous expense	<u>1,133</u>	<u>551</u>	<u>84</u>	<u>1,768</u>
	1,235,842	168,317	50,172	1,454,331
Depreciation	<u>15,988</u>	<u>2,565</u>	<u>260</u>	<u>18,813</u>
Total Expenses	<u>\$ 1,251,830</u>	<u>\$ 170,882</u>	<u>\$ 50,432</u>	<u>\$ 1,473,144</u>

The accompanying notes are an integral part of these financial statements.

VASHON YOUTH AND FAMILY SERVICES

STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash

	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 26,110	\$ (170,967)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	18,112	18,813
Changes in certain assets and liabilities:		
Accounts receivable	(632)	16,084
Prepaid expenses	(1,894)	(2,628)
Unconditional promises to give	4,000	-
Accounts payable	697	4,431
Accrued payroll and vacation	(7,791)	-
Deposits and due to other organizations	(3,875)	(5,011)
Repayment obligation	<u>(11,573)</u>	<u>28,992</u>
Net cash provided (used) by operating activities	23,154	(110,286)
Cash flows from investing activities:		
Purchase of depreciable assets	-	(3,256)
Proceeds from sale of investment	-	519
Net proceeds from restricted cash account	<u>6,068</u>	<u>-</u>
Net cash provided (used) by investing activities	6,068	(2,737)
Net increase (decrease) in cash	29,222	(113,023)
Cash and cash equivalents - beginning of year	<u>45,319</u>	<u>158,342</u>
Cash and cash equivalents - end of year	<u>\$ 74,541</u>	<u>\$ 45,319</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,400	\$ 8,400

The accompanying notes are an integral part of these financial statements.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

Vashon Youth and Family Services (the Organization) is a Washington Nonprofit Corporation which was formed on July 21, 1977. The Organization strives to empower Island families to raise thriving, resilient children and youth by fostering a community of emotionally healthy, resourceful families and individuals. Vashon Youth and Family Services accomplishes this by identifying needs, developing positive opportunities for youth and families, and facilitating support services for them.

Further, the Organization is to carry out any other educational or charitable purpose within the meaning of Section 501 (c)(3) of the Internal Revenue Code.

The Organization receives primary funding through a variety of sources (see supplementary information). King County, through the Department of Community and Human Services funds counseling, community projects, life skills, and substance abuse prevention. United Way funding helps to support general and specific Organization purposes. Additionally, Vashon Youth and Family Services works with other nonprofits and public and private Organizations to support specific programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accrual method of accounting is used for financial statement purposes.

Depreciation

Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the related assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor restrictions.

Temporarily restricted net assets - Net assets subject to donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor restrictions are maintained permanently by the Organization. There were no permanently restricted net assets at December 31, 2014 and 2013.

Activity relating to the temporarily restricted net assets during the year ended December 31, 2014 and 2013 is as follows:

	January 1, 2014	Contributions Received	Released	December 31, 2014
Counseling Programs	\$ 8,000	\$ -	\$ (8,000)	\$ -
Capital Campaign - PlaySpace	51,914	-	(8,400)	43,514
Vashon Health Center	1,020	-	(1,020)	-
Basic Needs	5,000	-	(5,000)	-
VIVA Program	-	14,500	-	14,500
	<u>\$ 65,934</u>	<u>\$ 14,500</u>	<u>\$ (22,420)</u>	<u>\$ 58,014</u>
	January 1, 2013	Contributions Received	Released	December 31, 2013
Counseling Programs	\$ -	\$ 8,000	\$ -	\$ 8,000
Capital Campaign - PlaySpace	59,914	400	(8,400)	51,914
Vashon Health Center	13,220	25,835	(38,035)	1,020
Basic Needs	3,395	4,999	(3,394)	5,000
Early Learning and Parenting Program	35,785	-	(35,785)	-
	<u>\$ 112,314</u>	<u>\$ 39,234</u>	<u>\$ (85,614)</u>	<u>\$ 65,934</u>

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Income Taxes

The Organization is not subject to income taxes. Management believes that the Organization has adequately addressed all relevant tax positions and there are no unrecorded tax liabilities. Generally, the Organization's tax returns remain open for three years for federal and state income tax examination.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash represents operating cash held in bank accounts, and restricted cash represents monies held pursuant to certain debt covenants and restricted purposes specified by donors. At December 31, 2014 and 2013, there were no cash equivalents.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs, including fund-raising activities and support services. Costs that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated to a program by predetermined percentages. These percentages are primarily calculated based on staff time spent in the various programs.

Accounts and Grants Receivable

Accounts receivable are stated at an amount management expects to collect from outstanding balances for fees and grant amounts earned but not yet received as of the financial statement date. The Organization writes off individual accounts receivable when they are determined to be uncollectible. At December 31, 2014 and 2013, the Organization considered all remaining accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Accrued Vacation Liability

Full-time employees working more than 1,040 hours annually are eligible for compensated vacation time. Eligible employees accrue vacation leave on a monthly basis, beginning on their hire date. The annual accrual amount, which varies based on hours worked and length of service, is established at 12 to 20 days. Carryover of a maximum accrual of 240 hours is allowed, with any amount over the maximum forfeited. Upon termination of employment a maximum of 120 hours will be paid out.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Donated Assets and Services

Noncash donations are recorded as contributions at their estimated fair value at the date of the donation. Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets; or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

In-kind contributions are recorded as revenue and expenses at fair market value as of December 31, as follows:

	<u>2014</u>	<u>2013</u>
Salaries	\$ 112,421	\$ 127,455
Supplies	<u>194</u>	<u>3,100</u>
	<u>\$ 112,615</u>	<u>\$ 130,555</u>

In-kind salary expense is recorded based on direct service hours from interns utilized in counseling programs. Additionally, many individuals volunteer their time and perform a variety of tasks to assist in the Organization's program services. These contributed services do not meet recognition criteria under current accounting standards and, accordingly, are not reflected in the accompanying financial statements.

Donated Property

Donations of property are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Restricted Cash

The Organization reports gifts of cash and grants that have been both externally restricted and internally restricted for certain purposes. As of December 31, 2014 and 2013, restricted cash consists of amounts restricted for the Note Payable - PlaySpace (see Note 7) and other grants and donations.

Subsequent Event

Management of the Organization has evaluated events and transactions occurring after December 31, 2014 through June 9, 2015, the date the financial statements were available for issuance, for recognition or disclosure in the financial statements. There were no events and transactions that required recognition and disclosures in the financial statements.

Reclassification

Certain amounts as previously presented have been reclassified to conform with the current year presentation. For comparison purposes, payroll cash and accrued payroll in the amount of \$71,357 were reclassified as of December 31, 2013. This reclassification had no effect on total net assets.

NOTE 3 - PROMISES TO GIVE

The Organization had conducted a fund-raising campaign related to the purchase of a building (PlaySpace), which was completed on May 11, 2011, primarily providing space for programs related to early childhood development. The promises to give are restricted to the payment of costs associated with the purchase and maintenance of the building.

Unconditional promises to give at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ -	\$ 38,500
Receivable in one to five years	<u>34,950</u>	<u>450</u>
	<u>\$ 34,950</u>	<u>\$ 38,950</u>

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Fixed assets are capitalized at cost, with depreciation provided for on the straight-line method over the estimated useful lives of 3 to 8 years. Buildings and improvements are generally depreciated over useful lives of 30 to 40 years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization capitalizes all expenditures for equipment in excess of \$1,000. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation is charged to the activity benefiting from the use of the property or equipment.

The major classes of depreciable assets as of December 31 consist of:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 90,441	\$ 90,441
Building and improvements	500,896	500,896
Land	<u>346,500</u>	<u>346,500</u>
	937,837	937,837
Less: Accumulated depreciation	<u>302,100</u>	<u>283,989</u>
	<u>\$ 635,737</u>	<u>\$ 653,848</u>

NOTE 5 - LEASED PROPERTY

Under terms of an agreement with the Vashon Island School District, Vashon Youth and Family Services is authorized to use and occupy certain real property described as Vashon Island High School. The lease requires the Organization to use the facilities as a family and youth services program center for Vashon Youth and Family Services programs, a meeting and office facility (Facility A), and a facility available for public use as allowed by King County (Facility B).

The term of the agreement is approximately 21 years, expiring in December 2021, with an option to extend for 15 years. During the initial lease term, in lieu of rent, Vashon Youth and Family Services shall annually provide 500 hours of prevention/intervention services. Upon extension of the lease, Vashon Youth and Family Services shall pay rent at a negotiated fair market rate.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LEASED PROPERTY - (CONTINUED)

Vashon Youth and Family Services has erected two distinct buildings on the real property. Upon lease termination, Facility A shall be quit-claimed to Vashon Island School District; ownership of Facility B remains with Vashon Youth and Family Services. The lease agreement contains other terms and conditions in the event of recapture by the School District in accordance with RCW 28A.335.040 regarding the use of surplus school property. Vashon Youth and Family Services will be obligated to continue to operate youth and family counseling services at Facility B through approximately November 30, 2021.

In January 2010, the Organization entered into a noncancellable lease for a Ricoh copier, which is classified as an operating lease. The commencement of the lease was January 1, 2010 with an initial term of 62 months through February 28, 2015. In 2013, the Organization entered into a noncancellable lease for another Ricoh copier, which is also classified as an operating lease. The commencement of the lease was October 1, 2013 with an initial term of 60 months through October 31, 2018. Lease payments and copier cost expense for the years ended December 31, 2014 and 2013 was approximately \$6,933 and \$4,922, respectively. The approximate future minimum annual lease payments under the leases are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 4,078
2016	3,212
2017	3,212
2018	2,677
2019	-
	<u>\$ 13,179</u>

NOTE 6 - REPAYMENT OBLIGATION

Chemical Dependency (CD) Program Repayment Debt

CD program repayments reflected in these financial statements refer to a repayment obligation stemming from improperly documented billings submitted to King County and Title XIX for chemical dependency services delivered between March 1, 2012 and June 24, 2013. The repayment obligation is structured to occur during fiscal years 2014 and 2015, which consists of the following:

Program repayment obligation with King County Mental Health, Chemical Abuse and Dependency Services Division County Community Services, was unsecured with 0% interest in the original amount of \$11,000. As of December 31, 2014, the repayment obligation to King County in the amount of \$11,000 has been paid in full.

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - REPAYMENT OBLIGATION - (CONTINUED)

Program repayment obligation with Provider One, Title XIX, is unsecured with 0% interest in the amount of \$17,992. As of December 31, 2014 and 2013, the outstanding balance totaled \$17,419 and \$17,992, respectively.

NOTE 7 - NOTE PAYABLE

Note Payable - PlaySpace

The note, dated May 9, 2011, bears an interest rate of 4%, for a period of 5 years. Required monthly payments are interest only until maturity. Proceeds of the note were used to acquire and remodel the PlaySpace property. Per the loan modification dated October 17, 2014, interest on the unpaid principal balance of the note will remain at four percent (4%) per annum for the term of the loan modification. Effective January 1, 2015, the unpaid principal balance in the amount of \$210,000 will be amortized on a twenty year amortization schedule.

The Organization will make monthly payments in the amount of \$1,272.56 with the first monthly payment due on February 1, 2015. The unpaid principal and any accrued and unpaid interest shall be due in full on January 1, 2020. The note is secured by a first deed of trust on the PlaySpace building. In addition, any current and future pledges made to any capital campaign of the Organization should be collateral for the note. All pledges when collected should be placed in a restricted account. As of December 31, 2014 and 2013, the restricted account balance totaled \$12,416 and \$875, respectively.

As of December 31, 2014 and 2013, it is not practicable to make a reasonable estimate of fair value for the note payable.

Principal Payments

Principal payments on the note for the next 5 years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 6,404
2016	7,259
2017	7,555
2018	7,863
2019	8,183
2020	<u>172,736</u>
	<u>\$ 210,000</u>

VASHON YOUTH AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - COMPLIANCE AND CONTINGENCIES

Vashon Youth and Family Services received a substantial portion of its support from various governmental and charitable entities. Annual budget for 2014 and 2013 are \$1,232,352 and \$1,320,132, respectively. Approximately 45% for 2014 and 36% for 2013 of its annual budget is from Alcohol & Drug Prevention Coalition and Navos Title XIX-Medicaid. A significant increase or decrease in the level of this support, if it were to occur, might have an effect on its programs and activities. Additionally, certain grants have various program requirements, as set forth in the funding agreements. Failure to fulfill these conditions could result in the return of funds to the grantors.

VASHON YOUTH AND FAMILY SERVICES

SCHEDULES OF GRANTS AND FEES

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
King County		
Permanent housing	\$ 10,000	\$ -
Department of Community & Human Services		
Youth & Family Services	36,821	36,821
Mental Health Chemical Abuse Services	10,036	56,520
Alcohol & Drug Prevention Coalition	70,611	167,034
Vashon Housing Project	-	<u>22,813</u>
	<u>127,468</u>	<u>283,188</u>
Community Development Block Grant		
Housing Stability Project	1,201	1,599
U.S. Department of Health and Human Services		
SAMHSA	-	55,860
Washington State Department of Social and		
Health Services	27,447	33,322
Superintendent of Public Instruction Child		
and Adult Care Food Program	2,707	3,197
United Way Community Funding	45,000	30,300
Navos Title XIX-Medicaid	478,738	304,652
Provider I -Title XIX	8,612	8,934
Other Contract Fees	-	<u>5,830</u>
Total Grants and Fees	<u>\$ 691,173</u>	<u>\$ 726,882</u>